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QUOTE

LIMITED OFFICIAL USE NEW DELHI 12726

PASS AGRICULTURE

E.O. 11652: N/A

TAGS: EAGR, IN

SUBJ: SOVIET GRAIN LOAN TO INDIA

REF: A) NEW DELHI 11444 B) NEW DELHI 11490 C) NEW DELHI 11768

BEGIN SUMMARY - DELIVERY OF THE SOVIET LOAN OF TWO MILLION TONS
OF GRAIN LOAN TO INDIA WILL BE EFFECTED PRIOR TO JUNE 30, 1974. RE-
PAYMENT OF THE LOAN WILL BE IN KIND OVER A FIVE-YEAR PERIOD, WITH A
TWO-YEAR GRACE PERIOD. THERE ARE NO INTEREST CHARGES ON THE LOAN.
THE AGREEMENT IS VERY FLEXIBLE AND PERMITS ADJUSTMENTS AS CONDITIONS
CHANGE. PRINCIPAL ADVANTAGES OF THE AGREEMENT TO INDIA ARE:
INCREASES FOOD SUPPLY (OR FOOD RESERVES), SAVES FOREIGN EXCHANGE,
HELPS CONTROL INFLATION AND ENCOURAGES HOARDERS TO MARKET THEIR
SURPLUS GRAIN. END SUMMARY.

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1. SINCE THE TWO MILLION TON SOVIET GRAIN LOAN TO INDIA WAS ANNOUNCED

ON SEPTEMBER 28, THERE HAS BEEN A WIDE RANGE OF DIFFERING REPORTS ON DETAILS OF THE LOAN AGREEMENT. THE GOI HAS NOT ISSUED AN OFFICIAL STATEMENT ON THE AGREEMENT AND DOES NOT PLAN TO DO SO. EMBOFF REQUESTED AN APPOINTMENT WITH GOI OFFICIAL TO DISCUSS CONTENTS OF THE AGREEMENT. THIS MEETING WAS HELD ON OCTOBER 30. THE MAIN FEATURES OF THE AGREEMENT AS DESCRIBED BY THE GOI OFFICIAL ARE AS FOLLOWS:

- A. THE AGREEMENT IS VERY FLEXIBLE AND INCLUDES PROVISIONS FOR ADJUSTMENTS AS THE AGREEMENT IS IMPLEMENTED.
- B. TARGET QUANTITIES OF GRAIN INVOLVED ARE 1.8 MILLION METRIC TONS OF WHEAT AND 0.2 MILLION METRIC TONS OF RICE. THERE WILL BE NO RICE SHIPMENTS UNTIL THE SPRING OF 1974. THE AGREEMENT INCLUDES A CLAUSE WHICH PERMITS THE SUBSTITUTION OF WHEAT FOR RICE IF RICE CANNOT BE MADE AVAILABLE. THE SOURCE OF THE RICE TO BE SENT TO INDIA WAS DESCRIBED AS "OPEN," I.E. THE RICE MAY COME FROM THE SOVIET UNION OR IT MAY BE DIVERTED FROM SOVIET PURCHASES OF EGYPTIAN RICE.
- C. THE AGREEMENT PROVIDES THAT APPROXIMATELY 950,000 TONS OF WHEAT WILL BE DIVERTED TO INDIA FROM SOVIET PURCHASES IN AUSTRALIA AND CANADA.
- D. WHEAT TO BE SHIPPED FROM THE SOVIET UNION (BLACK SEA PORTS) WAS DESCRIBED AS HIGH QUALITY WHEAT WITH A MINIMUM WEIGHT OF 61 LBS. PER BUSHEL. PROTEIN CONTENT OF THE WHEAT WAS NOT MENTIONED IN THE AGREEMENT, ALTHOUGH THE GOI OFFICIAL SAID IT WOULD SUBSTITUTE FOR WHEAT NORMALLY IMPORTED FROM THE US, CANADA AND AUSTRALIA.
- E. ALL GRAIN OBTAINED UNDER THIS AGREEMENT IS TO BE DELIVERED TO INDIA BY JUNE 30, 1974. THE GOI HAD HOPED THAT DELIVERIES COULD BE COMPLETED MUCH EARLIER, BUT THIS WAS NOT POSSIBLE DUE TO TRANSPORTATION PROBLEMS.
- F. A LARGE SECTION OF THE AGREEMENT DEALS WITH THE PAYMENT OF OCEAN TRANSPORTATION COSTS, THE ESSENCE OF WHICH IS THAT THE GOI AND THE SOVIETS WILL SHARE OCEAN TRANSPORTATION COSTS ON A 50-50 BASIS. MAXIMUM USE WILL BE MADE OF INDIAN AND SOVIET SHIPS IN MOVING THE GRAIN TO INDIA AND IN TRANSPORTING THE REPAYMENT GRAIN TO THE SOVIET UNION OR OTHER AGREED DESTINATIONS.
- G. THE AGREEMENT PROVIDES THAT THE GRAIN LOAN WILL BE REPAYED OVER A FIVE-YEAR PERIOD WITH A TWO-YEAR GRACE PERIOD DURING LIMITED OFFICIAL USE

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WHICH INDIA HOPES TO REBUILD BUFFER STOCKS. REPAYMENT OF THE LOAN WILL BE MADE IN FIVE INSTALLMENTS OF 400 THOUSAND TONS OF GRAIN PER YEAR AND WILL BE COMPLETED IN 1980. THERE ARE NO INTEREST CHARGES ON THE LOAN.

H. THE BASIC AGREEMENT CALLS FOR REPAYMENT OF THE GRAIN IN KIND. THERE IS, HOWEVER, A PROVISION WHICH PERMITS THE SUBSTITUTION OF OTHER AGRICULTURAL COMMODITIES (SUCH AS CORN AND PEANUTS)

FOR WHEAT OR RICE ON A VALUE BASIS. WE HAVE NOT BEEN ABLE TO
OBTAIN EXACT INFORMATION ON HOW "VALUE BASIS" WILL BE DETERMINED.

I. GOI OFFICIALS SEE FOUR MAJOR ADVANTAGES OF THE GRAIN LOAN
TO INDIA: 1) THE LOAN WILL PROVIDE AN ADDITIONAL SUPPLY OR
URGENTLY NEEDED FOODGRAINS; 2) IT WILL SAVE THE GOI APPROXIMATELY
300 TO 400 MILLION DOLLARS IN FOREIGN EXCHANGE; 3) IT WILL
HELP TO CONTROL INFLATION; AND 4) IT IS HAVING AN IMPORTANT
PSYCHOLOGICAL EFFECT IN THAT MORE HOARDED GRAIN IS COMING
TO MARKET WHICH HAS IMPROVED FOOD SUPPLIES AND DISCOURAGED
FURTHER PRICE INCREASES.

2. COMMENT: EMBOFF BELIEVES THE ABOVE POINTS ARE A REASONABLY
COMPREHENSIVE SUMMARY OF THE MAJORE PROVISIONS OF THE GRAIN
LOAN AGREEMENT. IT WAS POINTED OUT REPEATEDLY, HOWEVER, BY
THE GOI OFFICIAL THAT THE MANY FLEXIBLE CLAUSES IN THE AGREEMENT
ARE LIKELY TO RESULT IN CHAWDPB#
UWMCVMNAL#PLANS AS THE AGREEMENT
IS IMPLEMENTED.

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